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ABSTRACT

The Association of Universities and Colleges of Canada's comments on Canada's 1987 White Paper on Tax Reform are presented. The comments relate primarily to five income tax issues: charitable giving to colleges and universities, faculty pensions, tuition, the reporting of tax deductions at source, and research and development efforts. For each issue, the association's perspective on the problem is summarized and a recommendation is made. The recommendations are that: (1) the highest level of tax credit apply to all charitable donations to higher education institutions, not just to the largest; (2) further consideration be given to proposed limits on faculty pension plan donations; (3) the government remove the limit on the transferability of the tuition tax credit to a supporting parent or grandparent; (4) employers be required to remit income tax deducted at source within 7 days of normal payroll dates or be compensated for the increased cost of administering the payroll deduction system on its behalf; and (5) the definition of research under the income tax legislation be amended to include research in the humanities and social sciences. (MSE)

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A SUBMISSION ON TAX REFORM FROM THE ASSOCIATION OF UNIVERSITIES AND COLLEGES OF CANADA

TO

THE STANDING COMMITTEE OF THE HOUSE OF COMMONS ON FINANCE AND ECONOMIC AFFAIRS

U.S. DEPARTMENT OF EDUCATION
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HE 021 779

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The Association of Universities and Colleges of Canada (AUCC), a national voluntary association of eighty three degree granting institutions in Canada, is pleased to have an opportunity to comment on some of the aspects of the June 18, 1987 White Paper on Tax Reform which are of direct relevance to Canadian universities. This submission has been prepared with the assistance of the Canadian Association of University Business Officers (CAUBO).

The AUCC has studied the government's initiative to reform the Canadian tax system and wishes to submit the comments which follow. The views presented in this submission will deal primarily with income tax matters. **A separate brief will be prepared at a later date dealing more specifically with the proposals for sales tax reform.**

Donations

One of the major effects of the White Paper on universities and on charitable organizations in general is that it provides a real disincentive to charitable giving. The reduction in the top marginal rate of tax, while welcome at the personal level, effectively will increase the net after-tax cost of donations. The proposed tax changes, therefore, may have a negative impact on the total value of donations

to universities in Canada. Given the increasing dependence of universities on private, non-government funding, it is highly desirable that the tax system provide an incentive to donations. We would be pleased to work with the government to develop specific proposals particularly relative to medium and large donors since a significant number of donations to universities come from these sources. Suggestions in this regard have already been made by the AUCC. Considering only the present proposals, the intent that the first $250 of charitable giving by an individual become a tax credit equal to 17% of the amount donated might well discourage a number of Canadians from donating to charitable organizations. **The AUCC recommends that the 29% tax credit apply to all donations.**

Pension matters

The AUCC was concerned by the limits suggested as a part of pension reform. The delay now proposed by the White Paper in the implementation of these limits exacerbates these concerns. The revised schedule will mean that the limits for registered pension plan contributions in 1988 will be the same as those for 1986 and 1987 and the increased limit of $15,500, previously scheduled for 1990, will now be deferred until 1994. This delay combined with the proposals that will limit maximum pensions to approximately 2.5 times the average industrial wage rather than the original factor

of three anticipated in the October 1986 proposals is regrettable.

In addition, the universities continue to be concerned with the proposal that contributions to money purchase plans will likely be based on the actual salary paid to university faculty while on sabbatical leaves. It is common practice for universities to provide sabbatical leaves to faculty members for research purposes at something less than full salary. In this situation total contributions to the pension plan normally continue to be based upon a full salary. The universities' concerns on this issue previously had been brought to the attention of the Department of Finance and **the Association would recommend that further consideration be given to this issue which is of considerable significance to many Canadian universities.**

Tuition fees

The move to allow the federal tax credit for tuition fees to be transferred to a supporting parent or grandparent is commendable. This measure will be more beneficial to most students and their parents than the current system of tax deductions which do not permit the transfer.

The proposal, however, to impose a limit of $600 on the transferability of this tax credit is regrettable. This

limit is equivalent to approximately $3,000 in tuition fees and, in some cases, it will not be sufficient to allow for a full deduction of the fees that universities may need to impose for some of their programs of study.

On a related matter, the tax credit for dependent children will no longer apply to children aged 18 and over who are attending an educational institution on a full-time basis. This change in large measure will offset the benefit provided through the transferable tuition tax credit.

The AUCC urges the government to remove the limit on the transferability of the tuition tax credit.

Tax deductions at source

Universities, along with most other employers, bear a significant cost in calculating, remitting and reporting source deductions.

In the documentation on Income Tax Reform, the government proposes measures ". . . to accelerate the remittance of source deductions . . .". For 1988 and 1989 larger employers will be required to remit source deductions on a twice monthly basis. Starting in January 1990, "employers at or above the $15,000 threshold will be required to remit four times a month."

It is not clear from the balance of the material whether separate calculations will have to be done each month for the four periods described, whether separate reports will have to be prepared, or indeed whether the timing of remittances will be related in any way to normal pay dates. But there is clearly great potential here for the imposition of a very heavy workload and the related costs, which could result from additional record keeping and reporting for the government.

We would recommend that employers be required to remit the income tax deducted at source within 7 days of the normal payroll dates. In the alternative, the AUCC recommends that the government compensate employers for the increased cost of administering the payroll deduction system on behalf of the government, not unlike the compensation now paid to retailers for the collection and remittance of sales tax.

Research and Development

The AUCC recommends that the definition of research under the Income Tax Act be amended to include research in the humanities and the social sciences.

The full impact of tax reform on R & D funding has not yet been completely assessed and the AUCC would appreciate an

opportunity to make further comments on this issue at a later date.

Conclusion

Representatives of AUCC and CAUBO have met with senior officials of the Department of Finance to express concern regarding the negative effects that a form of value added tax, such as that being considered, may have on Canadian universities. Unless specific protection is provided to exempt universities from this tax on the purchase of supplies and services used for teaching and research, the financial impact of the tax will be severe and significant. A detailed brief on the subject of sales tax reform from a university perspective will be submitted at the appropriate time. This matter is obviously one which is of major significance to universities and the AUCC would appreciate an opportunity to discuss its views and proposals with government before legislation is introduced.

We trust that our comments on the impact of the tax reform proposals on Canadian universities will be helpful to the members of the Committee. Representatives of the AUCC would be pleased to meet with the Committee to provide additional details and to answer questions.

1987.08.04